SOME FINANCIAL ASPECTS OF THE INTERNATIONAL MERCANTILE MARINE COMPANY

The International Mercantile Marine Company was incorporated under the laws of the state of New Jersey in the autumn of 1902. Its predecessor was the International Navigation Company, which had taken out its charter in the same state in 1893. This earlier company owned and operated two trans-Atlantic steamship lines, the American and the Red Star, the latter sometimes known as the Société Anonyme Belgic-Américaine. The capitalization of the International Navigation Company consisted of $9,205,000 preferred and $5,000,000 common stock; also an authorized issue of $20,000,000 first-mortgage 5 per cent bonds dated 1899 and due in thirty years unless called sooner. These were secured by a first mortgage on the ships of the American Line, by a collateral lien on all of the shares of the Red Star Line, and on nearly all of the shares of the International Navigation Company, Ltd., a distinct company organized in England for the purpose of aiding in the acquisition of certain English properties.

When, in 1902, the International Navigation Company of New Jersey secured an amended charter and became the International Mercantile Marine Company, the International Navigation Company, Ltd., of England, practically all of whose shares had been owned by the International Navigation Company of New Jersey and were pledged as collateral security on the 5 per cent bonds of the latter, acquired the capital stock of the Oceanic Navigation Company, Ltd., an English company better known as the White Star Line. The White Star Line already owned the stock of the Atlantic Transport Company, the two companies together being known as the Atlantic Transport Line. Similarly the stock of the Dominion Line, another English company, was secured by the International Navigation Company, Ltd.

The American company chose this rather indirect mode of securing control of these English companies because of the opposition that would have been aroused had the attempt been made to buy them up in a more direct manner. Indeed, when the American

syndicate which undertook to finance the shipping combine purchased outright Frederick Leyland & Company, Ltd., a considerable stir was precipitated in England over the possibility of having the British merchant marine threatened by the attempt of American capitalists to secure a monopoly of the shipping of the North Atlantic.

That the syndicate chose a very inopportune time to effect such a combination events have fully substantiated. The wave of prosperity which during the preceding years had brought excellent returns to the world's merchant marine had already passed. Most of the acquisitions in other lines were based on the assumption that these high returns, particularly those of 1900, were normal and would continue. The valuations of three of the leading steamship companies, namely, the Leyland, White Star, and Dominion, were found by capitalizing their profits for the year 1900 on a 10 per cent basis. That is, the purchase price of each was placed at ten times the profits of that year.

That such a valuation was excessive was intimated by the chairman of the Leyland Company to the shareholders of that company when considering the advisability of selling the ordinary shares on such a basis: for thus each share of ordinary stock, par value £10, was valued at £14 10*s*. This price, offered by J. P. Morgan & Company, was ultimately accepted by practically all of the common shareholders. They were influenced, no doubt, by their chairman's belief that although on the basis of the profits made in 1900 the amount offered was by no means excessive, yet to base the value of an industry much subject to periods of alternating depression and prosperity upon the results of a single year would be exceedingly rash.[1]

While a "very handsome profit" was thus placed within reach, the English shareholders were also influenced by their anxiety about the future plans of the United States government, which at this time was earnestly revolving the project of shipping subsidies. Rather than see their own interests threatened they thought it well to use the present opportunity to let go their holdings at a

[1] See reprint from *Fairplay* in *Annual Report of the Commissioner of Navigation* 1901, pp. 315–22.

very satisfactory figure. Moreover, the shipping trust would probably secure agreements with leading American railroads having Atlantic seaboard terminals. Although these possibilities did not materialize, prospects pointed strongly toward the more active participation of American capital in a field where it had been at a considerable disadvantage hitherto.

That the shareholders of the Leyland Line were wise to let go their holdings is readily deduced from subsequent events. The company paid its last ordinary stock dividend of 6 per cent in 1901. It continued to pay its 5 per cent dividend on its preference shares until May, 1903, after which no dividends whatever were paid until 1913, when 10 per cent was paid, and in 1914 an additional 10 per cent—these recent dividends being on account of the arrears on the preference stock. For its interest in the Leyland Line the syndicate paid $11,736,000 in cash, from which, during the period from May, 1903, to 1913, it received no return whatever.

On a like basis of valuation the syndicate paid somewhat over $53,000,000 for the White Star Line, of which 25 per cent was paid in cash and 75 per cent in preferred stock, with an additional $37\frac{1}{2}$ per cent in common stock.[1] So greatly did the valuation raise the total figure of the assets that the shareholders received for every $5,000 of stock, in all, $50,000 in cash, preferred and common stock.

For the International Navigation Company and the Atlantic Transport Company, together, and subject to the $19,686,000 5 per cent outstanding bonds of the former, the sum of $34,158,000 was paid, consisting of $15,844,000 cash, and $18,314,000 preferred, with $9,157,000 common stock as a bonus. Before the merger the International Navigation Company possessed an authorized issue of $9,205,000 preferred stock upon which it was paying a dividend of 4 per cent, and $5,000,000 of common stock. The capital stock of the Atlantic Transport Company amounted to $3,000,000. Thus for these two companies, with a total authorized capital stock of less than $18,000,000 and a bonded indebtedness in excess of that amount, something more than thirty-four millions in cash and stocks of the new company was paid.

[1] *Commercial and Financial Chronicle*, LXXV, 983.

As a compensation for financing the enterprise, J. P. Morgan & Company received $2,500,000 preferred stock and $25,000,000 common stock. Of the total authorized issue of $60,000,000 preferred stock, $60,000,000 common stock, and the proceeds of the $50,000,000 first-mortgage and collateral trust 4½ per cent bonds, as well as those of the $19,686,000 outstanding bonds, a very large part was consumed in buying properties whose outstanding stock, before the merger, amounted to considerably less than $35,000,000, and whose bonded indebtedness was well below $30,000,000.

This great increase in the bonded indebtedness of the consolidated business over that of the constituent companies necessitated a correspondingly large increase in fixed charges. Such an increase could not but impair seriously the market for the very securities whose issue made the increased charges necessary. This will always occur unless the equity remaining in the profits, after such increase has been allowed for, is a very substantial one. Bond-buyers are investors seeking in advance the assurance of such an excess of income over interest obligations that the safety of their holdings cannot be questioned.

But the International Mercantile Marine Company has operated on such a thin margin of safety that from the beginning of its career its insecure financial situation has been reflected, not only in the market of its preferred stock, but also in that of its bonds. The company has proven itself so much weaker than the constituent concerns that it was found far easier to issue bonds upon the security of the White Star Line than upon any debenture the merger might issue. The latter, with an interest rate of 4½ per cent, would have sold in the neighborhood of 70, when similar debentures of the White Star Line were disposed of at 97½.[1]

The history of the company's earning power is here briefly given. The operating ratio, that is, the ratio of expenses of operation to gross earnings for each of the eleven years from 1903 to 1913 inclusive, has been as shown in Table I. It is not strange, with such an operating ratio, kept from appearing still higher only because depreciation charges were either inadequate or not made at all,

[1] *Commercial and Financial Chronicle*, LXXXVI, 1091.

that the International Mercantile Marine securities went begging for a market. And with the wholly inadequate allowances for depreciation that were made there were but four years out of the eleven years, 1903–13, in which fixed charges, consisting almost exclusively of bond interest, amounted to less than one-half the net earnings from which they were to be paid. In some years the fixed charges exceeded net earnings, as in 1904 and 1908. Had adequate allowances been made for depreciation each year, that is,

TABLE I

Year	Operating Ratio	Year	Operating Ratio
1903........	87.1	1909........	86.2
1904........	93.7	1910........	78.2
1905........	82.3	1911........	79.3
1906........	78.4	1912........	82.6
1907........	81.9	1913........	80.4
1908........	97.0		

had the accounts been so kept as to reflect accurately the condition of the company, earnings sufficient to meet fixed charges would have been lacking in at least five of the thirteen years. In these five years nothing whatever would have remained for the payment of the fixed charges, consisting primarily of interest on the outstanding bonds. It would thus appear that the present receivership of the company might properly have been brought about somewhat earlier.

That the hazards of a mercantile marine are great is indicated by the extensive fluctuations of gross earnings from year to year. The increase or decrease in gross earnings over those of the preceding year during the period 1904–13, inclusive, was as shown in Table II. These changes represent an annual average of 11.01 per cent. Similar tables constructed for most of our railroad and public-utility companies would indicate yearly changes considerably smaller than these. For instance, the average annual change in gross earnings of the Buffalo, Rochester & Pittsburgh Railway Company for the same period was 8.79 per cent, while for most public utilities it was even less than this.

The operating ratio of the International Mercantile Marine Company for the eleven years, 1903–13, both inclusive, averaged

85.9 per cent, or far in excess of what would be considered a safe ratio by companies whose income and expenditures are naturally much more stable. Railroad companies take alarm when their operating ratio goes above seventy, many public utilities have an operating ratio below sixty, and a study of hydro-electric plants will present instances of operating ratios well below forty. Thus for the period 1903–13, the average annual operating ratio of the Buffalo, Rochester & Pittsburgh was 62.9, and that of the Brooklyn Rapid Transit Company was 57.5.

TABLE II

Year	Increase or Decrease	Year	Increase or Decrease
1904........	− 5.9	1909........	+11.6
1905........	+16.1	1910........	+10.1
1906........	+10.8	1911........	+ 3.1
1907........	+ 8.0	1912........	+11.4
1908........	−21.6	1913........	+11.6

Other comparisons might be made to the same effect; but they are unnecessary. Good financial methods require that, for the safety of both the corporation and the bondholders, the amount of bonds which may be safely issued, other things being equal, should vary inversely with the percentage of the operating ratio and the degree of its fluctuations from year to year.

Predictions that the combination of hitherto competing lines would lead to great savings, from economies thus made possible, remained unfulfilled. The many important reforms which, if we may believe the first annual report of the International Mercantile Marine Company, were introduced, and the steps taken to avoid many needless expenditures, did not accomplish the predicted results. "The management felt it of great importance to proceed with caution in making radical changes in the organization and conduct of the business, and consequently the operations of the year 1903 reflected to a very limited extent the benefits which it is believed will accrue from the changes which have been made."

But it will require much optimism to find the reflection of these "benefits" in the company's reports for the succeeding years. Instead of attaining net profits amounting to $16,107,000 as

predicted, the report for 1904 indicates a deficit of over $2,000,000, and this, too, without making any allowance whatever for depreciation; while for the same year the Hamburg-American Line made an allowance of $4.49 per ton for depreciation. Had a like allowance been made by the International Mercantile Marine Company the deficit would have been increased by nearly four and one-half million dollars. For the four years ending with 1902 the constituent companies had averaged, together, $6,107,675 profits per year, no allowance apparently having been made for depreciation. Nevertheless, for the four years following consolidation the trust incurred an average annual deficit of over $600,000. Moreover, this showing was prevented from being far worse only by neglecting to write off any depreciation for 1903 and 1904 and by making very inadequate allowances for the next two years.

During these first four years all the profits from the insurance fund were paid back to the company to enable it to meet current expenses. Instead, it should have been used to strengthen the company against those contingencies to which ocean steamship companies are liable. Indeed, the same policy has been continued throughout the company's history; so that instead of having built up an insurance fund of more than $4,600,000, which would have resulted had earnings been retained therein, there remained in the fund at the end of 1913 only $1,208,000, an increase of slightly over $200,000 in ten years. Likewise the reserve which the company attempted to establish during the three years 1909–11, inclusive, was used by the company for current needs.

The lines thus consolidated possessed before their consolidation a total capital stock of less than $30,000,000, not including the American Line, whose property was owned in fee by the International Navigation Company. Besides the International Navigation Company's 5's, which were a lien to the extent of £699,000 on the assets of the International Navigation Company, Ltd., and 13,595,000 francs on the assets of the Société Anonyme, or Red Star, both of which lines were owned by the International Navigation Company, the only other indebtedness of the consolidated lines was the debentures of the Leyland Line, amounting to $1,600,000.

The International Mercantile Marine Company was capitalized at a figure exceeding $170,000,000, of which $20,000,000 consisted of the old 5 per cent bonds of the International Navigation Company,[1] $50,000,000 were the new $4\frac{1}{2}$ per cent mortgage and collateral trust bonds of the new company, and something over $1,247,000 were debenture bonds of the constituent companies held by the public.[2] For the year 1903 the interest on these bonds exceeded $3,083,000. Thus upon companies hitherto carrying relatively small fixed charges—or none whatever in the form of bond interest—a heavy and lasting burden was placed. With the possible exception of the White Star Line, these companies, even during prosperous years, had not paid large dividends.

In direct contrast with the policy pursued by the International Mercantile Marine Company is that which has characterized the operations of its most powerful rival, the Hamburg-American Company. With the exception of three unprosperous years the net earnings of the Hamburg-American Company have shown a steady growth from over $5,000,000 in 1903 to over $15,000,000 in 1913. At the same time the allowance for depreciation on its vessels has averaged for this ten-year period $4.11 per ton, and in no year has the company neglected to make a very substantial depreciation charge. On the other hand, the net earnings of the International Mercantile Marine Company have grown, although very irregularly, from slightly over $4,000,000 in 1903 to about $9,500,000 in 1913, but at the cost of most inadequate depreciation allowances—averaging $2.35 per ton for the entire period. In four years—two different periods of two consecutive years each—the company was unable to make any depreciation allowance whatever. The relative prosperity of the Hamburg-American Company is shown in other ways. Thus for the period 1903–13 the International Mercantile Marine Company increased its tonnage by 121,850, while during the same period the Hamburg-American Company increased its tonnage by 632,411 tons. For the same period the net earnings per ton of the former averaged

[1] Of these, $16,686,000 were outstanding. The balance was sold during 1903 to pay for steamers previously contracted for (*First Annual Report*, 1903, p. 7).

[2] Poor's *Manual of Industrials*, 1915.

\$5.71; those of the latter, \$8.61. For the former the fixed charges per year averaged \$3,769,743; for the latter, \$798,880. The fixed charges per ton averaged, for the former, \$3.64; for the latter, \$0.79, or over four and one-half times more for the American line than for the German line.

The four leading companies not included in the combine were the Hamburg-American, North German Lloyd, Holland-American, and Cunard. The total authorized capital stock of these companies was only \$68,000,000 and their total bonded indebtedness \$12,875,-000. But these four lines owned 225 ocean steamers with a tonnage of over 1,221,000 in contrast with the 133 vessels of the International Mercantile Marine Company with a tonnage of slightly over 992,000.

These figures prove beyond a doubt the overcapitalization of the shipping trust. In particular, its large bonded indebtedness has been a most troublesome burden. The fact that the preferred stock is cumulative and that no dividend has been paid on it since the organization of the company has resulted in an accumulation of dividends in arrears amounting to 76 per cent of the par value of the stock. Along with this accumulation of unpaid dividends has gone the progressive decline of the quotations for the common as well as the preferred stock. A condensed record of high and low prices from 1902 to 1914 is given in Table III.[1]

TABLE III

	Common		Preferred	
	High	Low	High	Low
1902–6.......	21	2	50	$14\frac{7}{8}$
1907–13......	9	$2\frac{7}{8}$	$27\frac{5}{8}$	10
1914.........	$3\frac{3}{4}$	$\frac{5}{8}$	$15\frac{1}{4}$	3

Why did those who financed the shipping trust go astray in their calculation of its future earning power? To answer this question necessitates the study of several propositions upon which their hope for monopoly profits has been based.

[1] Figures furnished by the *Magazine of Wall Street.*

In the first place, the hope of partial or entire relief from the competition of rival concerns has been a leading incentive to the formation of larger companies. Some such consideration must have been in the minds of the promoters of the International Mercantile Marine Company. But of all industries ocean transportation is least susceptible to monopolization. What has succeeded, at least partially, on land has failed completely on the sea. The ocean is a great highway reserved for no one, but free to all who own ships and observe the rules that govern travel on it. On the ocean a great investment in roadbed is not only unnecessary but impossible, so that the establishment of parallel and competing lines requires no wasteful duplication of capital. Not only could the shipping trust not hope for permanent control of the routes and rates across the Atlantic: it even failed in attempting to secure a major percentage of the tonnage engaged in that trade at the time of its incorporation. The two great German companies—the Hamburg-American and the North German Lloyd—absolutely refused to permit any of their stocks to be bought by the Morgan syndicate. Their stand was no doubt largely due to the zealous surveillance exercised by the German government, and to the desire that nothing might be done to alienate their value as auxiliaries to the government in time of war.

Instead, the two German companies made an agreement with the syndicate to share territory on a stipulated basis. The German companies on the one hand and the syndicate on the other also mutually pledged themselves to grant certain other concessions to each other, to wit: that the two German companies agreed to pay to the syndicate each year such a sum as should in the particular year in question be paid as dividends to the owners of 20,000,000 marks in shares. They agreed to pay a proportional amount on the new shares in case the capital stock was increased. Since the capital stock of each German company was 80,000,000 marks, the amount to be paid was 25 per cent of the total dividends paid. Should the companies pay no dividends, no tribute need be paid to the syndicate. On the other hand, the syndicate agreed to pay to the German companies 6 per cent on whatever amount of stock the Germans might be forwarding the above-mentioned dividends

upon. But whether the German lines paid dividends or not the syndicate was obliged to make its annual payment; while the two German companies were required to make their yearly contribution to the syndicate only when paying dividends, and then in direct proportion to their amount.

This agreement proved distinctly disadvantageous to the syndicate. At the expiration of the ten-year period over which the agreement had extended the syndicate grasped the opportunity to withdraw from it.

Although opposition in England did not go so far as to prevent the American syndicate from purchasing a controlling interest in English companies, yet both people and government were aroused to the necessity of taking steps to preserve the integrity of the English merchant marine. In accord with this sentiment the English government advanced money to the Cunard Company at a very low rate of interest to enable it to construct two of the largest and fastest of ships, the "Lusitania" and the "Mauretania." The money thus advanced was to be paid back to the government in a given number of instalments. In 1903 the government also began granting liberal subsidies to the Cunard Line.

Secondly, apart from the prospect of reduced competition, the syndicate anticipated that the United States would grant liberal subsidies to aid American shipping. The question came up in the Fifty-seventh Congress with a ship-subsidy bill championed by Senator Fry. Dividing steamers into seven classes, it provided a stipulated compensation per gross ton for each hundred miles sailed. Thus iron and steel steamers of more than 10,000 gross tons and with a speed of twenty knots or over were to receive a subsidy of 2.7 cents per ton per hundred miles sailed, etc. Certain other bounties were also provided for vessels not coming within the above-mentioned classes. Although this bill passed the Senate on March 14, 1902, by a vote of 42 to 31,[1] it was not brought up in the House because of the strong opposition that developed there.[2]

[1] Full text in *New York Times*, March 18, 1902.

[2] Royal Meeker, "History of Shipping Subsidies," in *Publications by the American Economic Association*, 3d series, Vol. VI, No. 3, p. 170.

Thirdly, the syndicate was formed just at the close of a very prosperous era in maritime commerce. The Spanish-American and Boer wars had caused the withdrawal of millions in tonnage from the customary channels of trade. A great part of the stocks of the English companies was taken in on the assumption that the profits of the most prosperous year, 1900, of a prosperous period would be permanent rather than exceptional.

Fourthly, rate wars, which the trust was formed to abolish, sprang up with renewed vigor. For a time agreements on freight and passenger rates were satisfactorily maintained. In February, 1902, representatives of the various lines carrying freight between the United States and England signed an agreement to raise freight rates as follows: grain, from $\frac{3}{4}$*d.* to 1$\frac{1}{2}$*d.* per bushel; flour, from 6*s.* 3*d.* to 7*s.* 6*d.* per ton; provisions, from 7*s.* 6*d.* to 10*s.* per ton. Although the German lines were not parties to the agreement, it appears to have been made with their knowledge and approval.[1]

A little later it was announced that an agreement had been entered into to fix minimum rates for first-cabin passengers, to become effective March 31, 1902. Parties to this agreement were the *American*, Anchor, *Atlantic Transport*, Allan, Cunard, *Dominion*, *Leyland*, French Trans-Atlantic, Hamburg-American, North German Lloyd, *Red Star*, and Holland-American lines.[2] Of these twelve lines the five in italics were either already controlled by the Morgan interests or soon to be brought under their control. These agreements were presumably the result of failing prosperity, resulting from poor crops in America and other causes, thus making rate wars probable in the absence of some form of protective association. At the annual meeting of the Hamburg-American Company, President Tietgens stated the purpose of the agreement to be the establishment of a community of interests, the determination of the respective fields of operation, and the securing of uniform traffic rules.[3]

In 1905 the Cunard Line withdrew from the agreement because of the inability of the International Mercantile Marine Company

[1] Statement of Gustav H. Schwab of the North German Lloyd, in *Commercial and Financial Chronicle*, LXXIV, 329.

[2] *Chronicle*, LXXIV, 785 (April 12, 1902).

[3] *Ibid.*, LXXX, 1426.

to comply with one of its provisions. "Ocean trade is now so heavy," remarks the *Commercial and Financial Chronicle* of April 15, 1905, "that for the present at least no danger of rate-cutting is anticipated." Unfortunately such conditions were not permanent, and in August, 1907, the Cunard Line opened the battle by reducing rates on the newly built "Lusitania." A general reduction of rates followed. The French Line made a reduction of $20.00 on eastbound fares on "La Provence," a ticket thus costing $95.00, or about $15.00 less than on the Cunard Line. Next the International Mercantile Marine Company reduced its eastbound rates $22.50 on all vessels of the American Line as well as on the "Oceanic," "Majestic," and "Teutonic" of the White Star Line. Successive reductions followed, until after nearly a year an agreement was entered into in London for the division of the steerage business between lines, including those of the International Mercantile Marine Company. Each line received a stipulated percentage of the total. Penalties were provided for those breaking the agreement. The lines in the agreement controlled 90 per cent of the third-class passenger traffic to the United States.

At about the same time an agreement was made whereby all passenger rates were advanced on February 10, 1908, to a point about $5.00 above that from which they had been reduced by the rate wars of the preceding year; while most of the rebates on the first- and second-class return tickets and special winter rates, except on Canadian lines, were abolished. This episode illustrates the difficulties that lay in the way of any attempt made by the shipping trust to secure permanent control of rates.

The present receivership does not come, therefore, as a surprise. On October 1, 1914, and on April 1, 1915, the International Mercantile Marine Company defaulted interest falling due on the outstanding $52,744,000 4½ per cent bonds. Likewise it failed on February 1 and on August 1, 1915, to pay the interest then due on the $17,728,000 outstanding 5 per cent bonds of the issue of 1899. On April 3, 1915, the United States District Court for the Southern District of New York appointed a receiver on application by the New York Trust Company, as trustee for the 4½ per cent

bonds. A joint reorganization committee, of which Otto T. Bannard became chairman, announced a plan of reorganization dated August 3, 1915. This plan has been approved by committees representing both bond issues. According to a statement of the reorganization committee the capital of the reorganized company will represent only the actual value of the tangible property and securities owned. Good will and going concern value are not capitalized. By this limitation upon the capital, fixed charges will be so considerably reduced that after allowing a suitable deduction for depreciation they will yet remain well within the figure of net earnings for the six years, 1909–14, inclusive.

The plan of reorganization will effect a reduction of the capitalization by nearly one-half, or about $80,000,000; while fixed charges will be trimmed down by about $1,270,000. Allowance is made for an annual depreciation charge of 5 per cent and for the establishment of an addition and betterment fund.

First-mortgage and collateral trust 5 per cent convertible gold bonds to the amount of $39,536,240 will be issued; also $31,464,233 preferred stock and $18,370,920 common stock will be issued for the old securities on the following basis: The outstanding 4½ per cent bonds will be exchanged, at their par value with interest to July 1, 1915, one-half for the new 5 per cent convertible bonds and one-half for the new preferred stock. The old 5 per cent bonds apparently will not be treated so well, for while they will receive 50 per cent of their par value, plus interest accrued to July 1, in the new convertible bonds, they will receive in addition only 20 per cent of their par value, plus interest, in the new preferred stock. Possibly the fact that the vessels upon which these bonds are a first lien are in a badly run-down condition may account for this. The old preferred stock will receive 20 per cent of its par value in new common stock, and the old common stock will receive 5 per cent of its par value in new common stock, thus placing an exchange value on the common stock of one-fourth that of the preferred.

The new bonds will fall due in thirty years, but will be redeemable on any interest date at 105 and interest; while at the desire of the holder they will be convertible at par into the new preferred

stock. As the authorized issue of these bonds is $50,000,000 and somewhat less than $40,000,000 will be required to make the exchanges indicated above, there will remain an issuable balance of over $10,000,000 for financing future enlargements.

The new preferred stock will be 6 per cent non-cumulative and participating; so that after the common stock has received a dividend of 6 per cent in any year, further distributions will be made equally between the preferred and common. The preferred will also be preferred as to assets in case of liquidation. Preferred and common stock will possess equal voting rights unless the preferred fails in any year to receive its full dividend, in which case it shall have the privilege of electing a majority of the directors until it shall receive its full 6 per cent dividend for three consecutive years. Less than one-half the authorized issue of the preferred stock will be required to retire the old securities. The sum of $50,000,000 will be reserved to meet the conversion privilege of the bonds.[1]

Much opposition has arisen to this plan, and the end is not yet in sight. The war has brought great profits to the company, both on shipments of war materials and from vessels requisitioned by the British government. It has also brought to the company certain misfortunes, such as high insurance rates, high wages in the war zones, loss of passenger traffic, and a discontinuance of services to certain European ports. But the gains resulting from the complete disappearance from the ocean of all German merchant vessels and from the great increase in freight rates approximating from 500 to 600 per cent easily outweigh the losses. The company estimates its net earnings for the first half of 1915 at about $11,000,000. These altered conditions have brought many of the stockholders to a realization that what might have been a satisfactory bargain some months ago appears now to be prejudicial to their interests. A minority committee has been formed representing this insurgent element among the stockholders. The chairman of this committee is J. N. Wallace, president of the Central Trust Company of New York. This committee has engaged experts to examine the accounts of the International Mercantile Marine

[1] *Plan and Agreement of Reorganization.*

Company. As the result of the preliminary report of the accountants the committee asserts that sufficient funds were on hand during March, 1915, to pay all interest then in default, that the president of the New York Trust Company was notified to that effect by the board of directors, and that the default under these conditions cannot be made the basis for foreclosure of the trust deed securing the bonds. For the advertisement calling upon the preferred stockholders to deposit their holdings with this committee the reader is referred to the *New York Times* of September 30, 1915.

Although the plan of reorganization has been declared operative by the joint committee, what at first appeared to be a tempest-in-a-teapot opposition has proven to be a gathering storm, the outcome of which is as yet uncertain.

EARL A. SALIERS

SHEFFIELD SCIENTIFIC SCHOOL OF
YALE UNIVERSITY